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No. 07-959

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SUPREME COURT, U.S.

In the Supreme Court of the United States

COUNTY MATERIALS CORPORATION,
Petitioner,

v.

ALLAN BLOCK CORPORATION,
Respondent.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Seventh Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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COUNTER-STATEMENT OF QUESTION PRESENTED FOR REVIEW

Whether, in affirming the validity of a non-competition agreement under Minnesota state law and federal patent policy, the Seventh Circuit correctly applied a rule of reason analysis and required the Petitioner to establish anti-competitive harm where the Petitioner based its claim of illegality solely on the alleged anti-competitive effect of the agreement.

CORPORATE DISCLOSURE STATEMENT

Allan Block Corporation is a privately held corporation. No publicly held entity owns 10% or more of its stock.

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RESPONDENT'S BRIEF IN OPPOSITION

Respondent Allan Block Corporation ("Allan Block") requests that the Court deny the Petition of County Materials Corporation ("County Materials") for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit.[1]

STATUTORY PROVISIONS INVOLVED

35 U.S.C. § 271, the statutory basis for patent misuse, provides in pertinent part:

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a

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[1] The cover of the Petition incorrectly identifies the Petition as a Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

STATEMENT

A. THE CONTRACT AT ISSUE

On April 28, 1993, County Concrete Corporation, Petitioner's predecessor in interest ("County Materials"), entered into a Production Agreement with Allan Block. (Pet. App. A22; A67 – A92). The Production Agreement granted County Materials the exclusive right to manufacture Allan Block concrete retaining wall blocks in its designated territory in northwest Wisconsin and sell those blocks under Allan Block's trademarks. (Pet. App. A22; A68 – A69; A92).

Allan Block agreed under the Production Agreement to provide County Materials with the technology necessary to produce the Allan Block concrete retaining wall blocks and sell them under Allan Block's trademarks. (Pet. App. A22; A68 – A69). In fact, throughout the twelve year life of the Production Agreement, Allan Block provided extensive technical, engineering, and marketing assistance to County Materials for the manufacture and sale of Allan Block concrete retaining wall blocks under Allan Block's trademarks. (Pet. App. A26 – A27). Included in the license to technology provided

to County Materials for production of Allan Block concrete retaining wall blocks was a license to Allan Block's patents on Allan Block's products. (Pet. App. A67 – A69).

In exchange for the technology and its exclusive right to manufacture Allan Block concrete retaining wall blocks in its northwest Wisconsin territory, County Materials agreed to make royalty payments on each Allan Block product it sold. (Pet. App. A71). County Materials also agreed during the term of the Production Agreement and for eighteen (18) months afterwards not to compete with Allan Block as follows:

> 13. **NONCOMPETITION**
>
> 13.1 The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer [County Materials] will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product, with the following exceptions: 1) The Versa-Lok product line for resale; 2) manufacture, market and promote the "Wall Block" product currently in production at their facility.

(Pet. App. A84 – A85). The parties specifically negotiated this provision to render it reasonable and acceptable to both parties. (Pet. App. A25 – A26).

Finally, the Production Agreement specifies that it shall be "interpreted under and governed by the laws of the State of Minnesota." (Pet. App. A89).

B. ALLEGATIONS AND PROCEEDINGS BELOW

County Materials brought suit on November 16, 2005 seeking a declaratory judgment that the non-competition provision of the 1993 Production Agreement is unenforceable. (Pet. App. A53 – A56).

The district court, in its opinion dated May 12, 2006, considered the motions for summary judgment filed by both parties regarding the validity of the non-competition provision. (Pet. App. A21 – A51). The district court held that the non-competition provision: (1) did not constitute patent misuse; (2) did not result from leverage by Allan Block's patents; and (3) did not unlawfully restrain competition. (Pet. App. A40 – A42). In addition, the district court held that the non-competition provision was valid and enforceable under Minnesota state law as protecting legitimate interests, reasonable as between the parties, and not injurious to the public. (Pet. App. A44 – A50). Accordingly, it entered summary judgment dismissing County Materials' complaint. (Pet. App. A51).

The Seventh Circuit affirmed the summary judgment in Allan Block's favor on September 18, 2007. The unanimous panel affirmed the decision of the district court that the non-competition provision was valid under Minnesota state law. (Pet. App. A13

– A17). The unanimous panel also affirmed the validity of the non-competition provision as not constituting patent misuse or having anti-competitive effects. (Pet. App. A6 – A12).

On October 2, 2007, County Materials petitioned the Seventh Circuit for a rehearing with a suggestion for rehearing *en banc*. County Materials argued that the panel's decision conflicted with the Seventh Circuit's prior decision in *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002). County Materials' petition for rehearing and its suggestion for rehearing *en banc* were denied on October 22, 2007. (Pet. App. A52).

REASONS FOR DENYING THE PETITION

County Materials' petition rests entirely on the assumption that the Seventh Circuit announced a rule of law that, quite simply, the court did not invoke. This is a diversity jurisdiction case. The decision below was a routine, straightforward application of Minnesota state law to determine whether the non-competition provision of a production agreement was valid and enforceable. Because County Materials alleged that the provision was illegal for anti-competitive reasons, the Seventh Circuit required County Materials to present some evidence of the basis for the alleged illegality. The Seventh Circuit did not hold that evidence of anti-competitive effect was required in every case alleging illegality of contract, but simply held County Materials to its burden of establishing the defense it pleaded.

The decision below does not conflict with any decision of this Court. Nor is there an intercircuit conflict warranting review. County Materials' petition argues, at most, that the Seventh Circuit failed to follow its own precedent. The absence of any intra-circuit conflict was confirmed when the Seventh Circuit was presented with the opportunity to review the case *en banc* and declined.

ARGUMENT

I. THE QUESTION PRESENTED DOES NOT WARRANT REVIEW.

A. County Materials failed to establish "compelling reasons" for review of the Seventh Circuit's decision, and thus, to satisfy Supreme Court Rule 10. The Seventh Circuit's decision is not in conflict with the decision of another United States court of appeals on the same important matter. Rule 10(a). None of the cases cited by County Materials from other circuits involves alleged illegality based upon patent misuse or anti-competitive activity. (Pet. at 17). Rather, County Materials' argues that the decision below is inconsistent with the Seventh Circuit's own decision in *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002). (Pet. at 5). County Materials' argument is both incorrect and insufficient to justify review. Moreover, the Seventh Circuit was presented with the opportunity to review the decision *en banc* based on the same allegation of an intra-circuit conflict, and declined. (Pet. App. A52).

The Seventh Circuit also did not decide an important question of federal law that has not been, but should be, settled by this Court, or that conflicts with relevant decisions of this Court. Rule 10(c). This is a diversity jurisdiction case as pled in County Materials' complaint. (Pet. App. A54). The contract at issue is governed by Minnesota state law. (Pet. App. A89). Moreover, County Materials has not identified any decisions of this Court that conflict with the decision below.

B. The Seventh Circuit properly applied a rule of reason analysis and required a showing of competitive harm where the alleged illegality of the non-competition provision was based solely upon alleged anti-competitive activity. The Seventh Circuit properly rejected County Materials' assertion that any contract that contains both a license to a patent and a non-competition provision is per se illegal. (Pet. App. A6). The Seventh Circuit held that because County Materials does not claim that Allan Block is trying to extend the term of any patent or expand the scope of the patent by the non-competition provision, a per se analysis was inappropriate. (Pet. App. A6-A7) (*citing* Brulotte *v. Thys Co.*, 379 U.S. 29, 32 (1964)). County Materials does not dispute this conclusion by the Seventh Circuit in its petition, but nonetheless implicitly asks this Court to apply a per se standard to invalidate the non-competition provision solely because the Production Agreement included a license to patented technology.

The complaint alleges that the illegality is based upon competitive harm, as set forth in paragraph 7:

> This covenant not to compete is unenforceable because it has no proper purpose, is not for the protection of legitimate interest of Allan, and is injurious to the public.
>
> > [A patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell or not to purchase, use, or sell another article of commerce not within the scope of his patent monopoly. His right to set the price for a license does not extend so far, whatever privilege he has 'to extract royalties as high as he can negotiate.'
>
> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135-136, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969) (citations omitted).

(Pet. App. A55). The Amended Complaint contains identical language. (Pet. App. A59).

Therefore, in applying a rule of reason analysis to the alleged illegality of the non-competition provision, the Seventh Circuit required County Materials to establish anti-competitive effects to substantiate the allegations in the complaint. (Pet. App. A10). County Materials failed to present any such evidence and simply argued that anti-competitive leverage is presumed because the contract contained a patent license. (Pet. App. A8). The Seventh Circuit properly rejected a patent-based

presumption of anti-competitive effects, based upon this Court's decisions in *Brulotte*, 379 U.S. at 33, *Ill. Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). (Pet. App. A8). County Materials' petition is silent on the Seventh Circuit's application of these cases.

The Seventh Circuit analyzed the evidence regarding the specifics of the contract at hand and held that there was no proof of any anti-competitive effect. The Seventh Circuit properly concluded that:

> Nothing in these facts suggest that Allan Block needed or used any kind of leverage made possible by the patent to secure County Materials's promise to refrain from working with all but the designated two competing products, or its promise to refrain from using other products for 18 months after expiration of the Agreement.

(Pet. App. A11 – A12).[2]

The Seventh Circuit held that the contract "showed no sign of one-sidedness or abuse of power on Allan Block's part." (Pet. App. A11). In fact, the Seventh Circuit noted that without the non-competition provision, Allan Block would have received little, if any, consideration for the use of its

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[2] As noted by the Seventh Circuit, the non-competition provision was not onerous and, in fact, allowed County Materials to continue to manufacture and sell two competing products, and had both temporal and geographic limits. (Pet. App. A12).

technology. (Pet. App. A11) ("If County Materials had been free to pick and choose among all potentially competing products on the market, Allan Block may have signed over the rights to use its patent and know-how for little or nothing in return.").

Finally, Country Materials engages in a semantic game about patent misuse as a defense as opposed to a basis for alleging invalidity. 35 U.S.C. § 271(d). There is nothing illegal about having a contract involving patents unless it constitutes patent misuse. There is nothing illegal about an anti-competitive agreement unless it violates antitrust law. Under either analysis, the Seventh Circuit properly held that evidence of anti-competitive effects were necessary. (Pet. App. A10 – A11).

C. The Seventh Circuit's decision was consistent with its prior decision in *Scheiber*. *Scheiber* involved a licensing agreement extending royalty payments beyond the life of the existing patents. In *Scheiber,* Judge Posner explained the distinction between the *Brulotte* and *Aronson* holdings :

> The [*Aronson*] Court emphasized that *Brulotte* had been based on the "leverage" that the patent had granted the patentee to extract royalties beyond the date of expiration . . . and that leverage was of course missing in *Aronson*.

Scheiber, 293 F.3d at 1019.

The non-competition provision in this case did not extent royalty payments beyond the life of the patents. Moreover, it did not involve leverage based upon the patents. On this basis, the Seventh Circuit properly applied its own precedent in *Scheiber*. (Pet. App. A8).

D. This case does not justify the creation of new patent law that any contract containing a patent license cannot also contain a non-competition provision. The Seventh Circuit did not hold that evidence of anti-competitive effect was required in every case alleging illegality of contract. County Materials seeks review of this case for the purpose of creating new patent law that any contract that includes both a patent license and a non-competition provision is per se invalid. Congress has already established the proper analysis of this issue in 35 U.S.C. § 271(d). Review by this Court is unnecessary.

CONCLUSION

For the foregoing reasons, the writ of certiorari should be denied.

Respectfully submitted,

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